



Epsilon Theory

The Grifters, chapter 2 – N95 Masks

August 11, 2020



The Grifters (1990)

Pat Hingle as Bobo and Angelica Huston as Lilly

Bobo Justus: Tell me about the oranges, Lilly...

[kicks over a bag of oranges]

Bobo Justus: While you put those in the towel.

Lilly Dillon: *[kneels on the floor and starts picking them up]* You hit a person with the oranges wrapped in a towel... they get big, ugly looking bruises. But they don't really get hurt, not if you do it right. It's for working scams against insurance companies.

Bobo Justus: And if you do it wrong?

Lilly Dillon: *[terrified]* It can louse up your insides. You can get p... p... p-p-p-p-p

Bobo Justus: What?

Lilly Dillon: P-permanent damage.

The best movie about con games is *The Grifters*, and the best scene in that movie is “Bobo and the oranges”, where mob boss Bobo terrorizes and punishes Lilly for screwing up one of his money laundering schemes. It’s one of the top-ten brutally compelling scenes in any movie I’ve seen, not so much for the physical violence as for the psychological violence.

We’re all Lilly Dillon today.

Our political and market worlds have become an unending sea of grift ... small cons, big cons, short cons, long cons ... and every day the distinction between grifters and squares becomes more and more blurred.

Day after day, we’re all getting smacked by Bobo and his bag of oranges, hoping to god that we only get badly bruised in the process.

But we all know that we’re past the point of permanent damage.

We’ve been assaulted by three grifts in just the past few week ... three smacks from Bobo and his bag of oranges ... each deserving of an Epsilon Theory note. [Chapter 1 was about Kodak.](#)

Here’s chapter 2.



Last week, Mike Pence shook his finger at us and said that there were no outstanding requests on federal PPE stockpiles from any governor, and thus any urgent requests for N95 masks from doctors or nurses were isolated incidents to be quickly resolved by state authorities.

SMACK goes the bag of oranges.

In truth, both the supply and the distribution of N95 masks in the United States remains a national disgrace, a squandered opportunity to fight Covid with something other than death cultism or lockdown defeatism.

In truth, what could have been our finest hour is turning into our worst.

For the past six months, a big part of my life has revolved around getting PPE directly to doctors, nurses, EMTs, first responders, social workers and other frontline heroes in this war against Covid-19.

Thanks to the amazing generosity of donors big and small, we raised close to \$1 million. Thanks to the inspired work of a dozen friends-for-life-most-of-whom-I-didn't-even-know-before-this, we first set up an "underground railroad" of N95 and high-quality KN95 masks from China, and later a steady network of PPE suppliers. Thanks to the daily, unwavering commitment of a small team (literally my wife and daughter, literally working out of our garage), we've been able to distribute more than 120,000 medical respirators in batches of 100-200 to more than 1,100 hospitals, clinics, police departments, fire departments, prisons and shelters across 47 states. So far. We'll get out another 4,000+ this week. And next week. And every week until we win this war.

Clear eyes. Full hearts. Can't lose.

Is the overall PPE situation for healthcare workers and first responders better today than it was in April? Absolutely. In April we were sending masks to desperate ER docs and nurses at major hospitals in the biggest cities in America. Today there is neither an urgent need nor even a shortage of PPE in these big city ERs and ICUs.

Why not? Because, distribution of PPE from our massive federal and state stockpiles is *designed* for big cities and big hospital systems. Because that's how the American system of trickle-down everything ... in this case PPE ... *works*.

Eventually, Andrew Cuomo sucks it up and asks Mike Pence for help, and eventually Mike Pence makes a call to FEMA, and eventually all the requisition forms get filled out and signed by all the right people at the governor's office, and eventually a truckload of 1 million N95 masks makes the trip from the FEMA warehouse to the New York-Presbyterian warehouse, and eventually a NY-P van starts shuttling a pallet of masks every week to every NY-P hospital loading bay, and eventually the boxes of N95s get allocated to the individual medical departments. Eventually.

At the same time, NY-P has half a dozen people in their requisition and supply department wading through all of the private channels and PPE distribution networks to place giant orders of their own. It takes twenty failed orders for one to come through, but eventually that one big private order shows up at the warehouse. Eventually.

Of course there are shortages and delays and weird distribution snafus and rationing for the non-emergency medical departments within these big hospital systems within big cities. Of course the system is kludgy and slow and absolutely maddening for anyone involved. But it kinda sorta works. Eventually.

Outside of these big hospital systems within big cities, however, PPE supply is a joke. A killing joke.

Trickle-down PPE is not an *eventually* thing for small towns and for poor, rural counties. It's a *never* thing.

The tragedy of our nationalized and oligarchized PPE system is not just our inadequate production system. *It is also and much more so our failed distribution system.*

There's *never* a truckload of N95 masks that goes to Dothan, Alabama or Harlingen, Texas or Lake Charles, Louisiana, much less the towns and rural clinics and county health offices and nursing homes these small cities serve. There is no van to shuttle PPE on a regular basis from the warehouse filled with this stuff. There is no well-staffed requisition department with the resources to make private orders. The requisition "department" is Rafa the volunteer EMT, who has to fill out three forms and wait six weeks to get reimbursed for the box of useless-as-PPE surgical masks he bought at the local Staples.

But it's in Dothan and Harlingen and Lake Charles and a hundred small cities just like them where an endemic Covid-19 is working its worst evil today. It's in Hale County and Cameron County and Beauregard Parish and a hundred poor or rural counties just like them where people get sick at home and mostly recover at home but sometimes die at home. This virus is no longer just a big city disease. It's an everywhere disease. *Et in Arcadia ego.*

None of these communities have sufficient PPE for frontline medical personnel and emergency responders, much less secondline clinics like a dialysis center or a maternity ward, much less chronic care facilities like a nursing home. At best they get some hand-me-downs from an affiliated big city system. Usually they buy something crappy from a friend of a friend distributor. Often they have nothing. In all cases, they are on their own.

And don't get me started on the schools.

I don't think I have the words to communicate just how screwed up our PPE distribution system is in this country.

I don't think I have the words to describe what a profound betrayal it is for our government to support this perverse system of personal greed and corporate ambivalence in exchange for campaign soundbites and photo ops.

But I'm gonna try.

Every PPE manufacturer in the world - from the largest like 3M and Honeywell to the smallest like some retrofitted Chinese factory - relies on private distributors to resell their masks. If you don't have access to FEMA stockpiles, you must work through these private distributors to buy N95s or KN95s (the functional Chinese equivalent) or FFP2s (the functional European equivalent).

Calling this private distribution system "the Wild West", which is how I often see it referred to in the press, is laughable. It's not the Wild West. There were sheriffs and marshals in the Wild West.

There were repeat transactions in the Wild West. There was a functional market for goods and services in the Wild West. This is not that.

One company - 3M - dominates global N95 mask production, making about 100 million masks per month. Roughly 40% of that total is made in the US, and roughly 40% of that total is made in China. For all practical purposes, the domestic US number is the only number that matters, as China no longer allows 3M to export Chinese-made N95s to the United States. Two other companies - Honeywell and Owens & Minor - round out the vast majority of domestic N95 mask production. [The President says](#) that we will produce 80 million N95 masks in the US this month. Let's take that with a big grain of salt ([the Defense Dept. says](#) we should hit that number by the end of the year), and say that the actual domestic N95 production number for these three companies combined is 50 million.

I've been buying PPE for six months, spending hundreds of thousands of dollars, and I have never successfully purchased a legitimate batch of 3M or Honeywell or Owens & Minor N95s. Never.

Everyone assures us that 3M and Honeywell and Owens & Minor make 50+ million N95s per month in the United States, and I've never seen ONE.

I'm not saying they don't exist. I'm saying that they are a) hoarded by private distributors who sell them to sovereign buyers at an enormous mark-up and/or big hospital systems at a large mark-up, and b) hoarded by the US government who - eventually - trickles them down to big hospital systems in big cities.

There is no market for domestically produced N95s in the United States.

That market simply does not exist, and anyone who approaches you as a broker or a contact or a distributor of a distributor of 3M or Honeywell N95s is a liar. Without exception, they are - if not petty grifters themselves - caught up in someone else's grift.

By the way, [Mark Cuban was saying exactly this four months ago](#). He was right then and he's even more right today.

So what we're left with - and by we I mean every American purchaser of medical respirators who is not a big hospital system in a big city - is the international KN95 distribution market. Again, not the Wild West. That's far too polite. This is a Hobbesian state of nature, where (economic) life is brutish, nasty and short. I've endured dozens of bait-and-switch operations, including a literal switching of packages at a Chinese air freight facility. I've seen documents that were forgeries of a known forgery. I've been forced to learn the niceties (and not so niceties) of Chinese currency transfers and customs law. I've tried to ship masks via diplomatic pouch and via Tesla's special export channel. I've heard hundreds of earnest assurances that dried up like the morning dew. I've met outright con men (rare) and pseudo-grifters (common).

I've also met some really good people.

I've also purchased some really high-quality KN95s at a fair price.

That's what makes the current system so frustrating. There ARE good actors in this system. There ARE high-quality products being manufactured by entrepreneurs all over the world. But right now the good actors and the good products are overwhelmed by a tsunami of misinformation and graft.

Right now, there are tens of millions of N95 masks that are NOT being distributed because they are hoarded by resellers and governments, including our own.

Right now, there are tens of millions of N95 masks that are NOT being made because of regulatory barriers and crony capitalism.

We could fix this today, you know.

Today, the White House could crack open the supply chain and distribution networks of 3M and Honeywell, the two giant corporations that dominate N95 mask production in the United States, but who do so as an afterthought, as a pimple on the butt of their strategic plans.

Today, the White House could require NIOSH (the regulatory body that approves a mask as N95-compliant) to expedite its ridiculous 6+ month approval process for new entrants, including KN95 mask producers.

Today, the White House could take a fraction of the money it's giving to politically-connected companies like Kodak or Owens & Minor, and make that funding available to American entrepreneurs - *the most powerful force for positive change in the world today* - to get involved directly in the manufacturing and (even more importantly) the distribution of PPE to ALL Americans. Even if they live in Dothan, Alabama or Harlingen, Texas.

None of these things will happen today, of course.

Today, the White House will continue to run its political graft, exchanging crony capitalism and status quo preservation for campaign photo ops and talking points.

For megacorps like Honeywell and 3M, both members of the S&P 500 and both with market caps close to \$100 billion, life is good if you play ball with the White House – meaning you say nice things about Trump and you “invite” him to use your factories for campaign speeches and photo ops – and life is difficult if you don’t.



That's Honeywell Chairman and CEO Darius Adamczyk - a "fantastic man" as Trump reminded us twice [in his speech that day](#) - presenting the President with a framed N95 mask after touring a Honeywell facility in Phoenix, Arizona on May 5th. Also attending were Arizona Governor Doug Ducey ("a fantastic governor") and Arizona Senator Martha McSally ("a fantastic person" who is "bringing tremendous amounts of dollars back to her state").

After noting the fantasticness of all involved, Trump introduced Jorge and Betty Rivas, the owners of Sammy's Mexican Grill, who had recently been featured in a Trump tweet and so "they became very rich". Jorge informed the cameras that "we represent the Latino community" and that "all the Latinos are going to vote for you". Trump made sure to note that he (meaning his campaign) would be paying for the food provided by Sammy's Mexican Grill that day. After a few more local testimonials, Trump wrapped up the photo op, and staffers cued the Trump Rally mixtape. New for the Honeywell event: the Guns N' Roses cover of "Live and Let Die".

I am not making this up.

What was the payoff for Honeywell from playing ball with the White House?

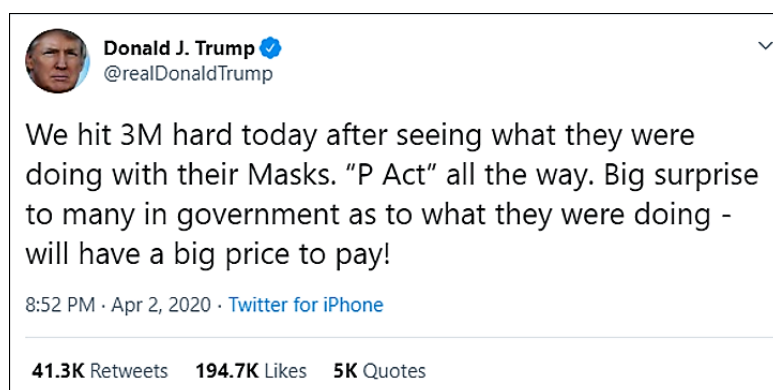
Well, part of the payoff was the \$148 million awarded to Honeywell by HHS and the \$27 million awarded to Honeywell by the Defense Dept for increased production of N95 masks, both contracts inked three weeks before the Phoenix trip. But these are drop-in-the-bucket contracts for Honeywell, which does more than \$30 billion a year in revenues.

The real payoff from playing ball with the White House is smooth sailing for the \$6 billion in revenues that Honeywell will get from the US government this year within its Defense and Space division.

Honeywell's long-term growth model - the thing that will make Darius Adamczyk's 600,000+ stock options worth hundreds of millions of dollars if he plays his cards right - is selling stuff to the Pentagon, and as a result his company - like all defense contractors - makes an art form out of schmoozing everyone with appropriations influence in Congress or the White House. Usually that means campaign contributions. Usually that means letting a Senator use one of the company jets. Usually that means a job or a board seat or an advisory council position once they're out of office. Usually that means our elected officials at least pretend that they're not on the make. But as we've seen again and again with this White House ...

They're. Not. Even. Pretending. Anymore.

At least Honeywell got the joke. 3M, on the other hand ...



This tweet sent 3M stock down more than 3% on April 3rd, costing the company a couple of billion dollars in market cap.

What did Mike Roman do to bring down the Trump Twitter wrath on his head?

Why, he made the White House look bad. He took away a talking point.

The saga begins on February 29th, when Pence had to scramble at that afternoon's press conference to back up Trump's off-the-cuff claim that "we have more than 40 million masks available today". Supporting the Boss, Pence announced:

"We've contracted now with 3M to ... [long pause] ... 35 million more masks per month will be produced, and we're also going to be working with other manufacturers."

Apparently, no one was more surprised by this "contract" than 3M. In an email around midnight that Saturday night, [a 3M representative wrote](#), "Just to clarify, we are not yet under contract for the volume mentioned today. However, we are preparing to respond to the US administration's request for a proposal for respirators."

Preparing to respond to a request for a proposal.

LOL.

So a week later, Pence makes a hastily scheduled trip to Minneapolis, along with our fave scientist, Dr. Birx, to meet with 3M CEO Mike Roman and Minnesota governor Tim Walz.

You can just feel the electricity, right?



I think this is what Trump would call "low energy" if it were a political adversary and not, you know, the Vice President. But wait, it gets better.

CEO Mike told VP Mike that 3M couldn't just snap their fingers and make 35 million N95 medical respirators magically appear, but they did happen to have 35 million N95 masks made for the construction industry laying around somewhere. If, by chance, the White House could see their way clear to having someone at FDA or NIOSH approve a liability waiver for 3M as pertains to

these N95 construction masks, why then by definition they would be available as N95 medical masks.

It took a couple of weeks, but sure enough Pence and team got the waivers in place for 3M. They let the company know, and a week later VP Mike called CEO Mike to ask him when they can expect the 35 million N95 masks. To which CEO Mike roughly said:

Oh, YOU wanted those masks? Gosh, there's been a terrible misunderstanding. I thought we were clear that the waivers were just to make the masks available as medical PPE. Sorry, man, but we've already sold all those masks to our resellers. They're already on their way to Canada and Latin America. We'll be sure to get you on the next batch, though!

And that's when Trump brought in the big guns.

"Jared Kushner, the president's son-in-law, has been leading administration contacts with the company to learn where the masks went and why some were not available as promised. The situation led Trump to invoke the Defense Production Act, said the official, who spoke on condition of anonymity to discuss events that have not been made public."

- Trump, 3M clash over order to produce more face masks for US (Associated Press, April 4, 2020)

Honestly, it's like a plot line from *Veep*.

Why did 3M cross the White House when Honeywell did not?

Because 3M's existential client isn't the government ... it's their resellers and distributors.

This is a company that depends as much on their distribution channels as Honeywell depends on the Pentagon. So when a windfall like 35 million N95s cleared for medical export comes available, in the early days of a global pandemic, when your CCP landlords have been breathing down your neck for months (3M manufactures as many products in China as any company on the face of the Earth) ... are you joking? Sure, CEO Mike would love to make the White House happy, but he also knows exactly where his bread is buttered - in keeping his distributors happy.

But fear not, all you 3M shareholders, a face-saving solution was soon found for all concerned. By April 21, the Defense Dept. ponied up a \$76 million contract for 3M, and followed that up with another \$126 million on May 6. Trump stood down from Twitter Defcon 2, and his imposition of the Defense Production Act was a complete nothingburger - 3M was commanded to work closely with Jared and give him what he wanted. As a result, the stock price never saw the lows of April 3rd again. Whew!

What did Jared want? It's all the White House ever wants. They wanted *praise*. They wanted a *big number* for a talking point. Just do THAT and it's all good. So that's exactly what Mike Roman gave them. He stopped complaining about the Trump tweets and started *thanking* the Trump

administration for helping 3M help the American people. He promised to increase domestic N95 production to some big round number over the next 12 to 18 months. The precise number is impossible to lock down because everyone interchangeably talks about mask production increase and mask production totals - sometimes it's 50 million masks a month total by October, sometimes it's 50 million masks more per month by October - but hey, 50 million is a big number! And next year ... well, who's to say that won't be 100 million masks per month? That's an even bigger number!

What happens to all of those masks? Where will they go? Well, some will need to go to the national stockpile because ... you know, we need a big number there, too. And you can't export too many of these masks to Canada or Brazil like you did with those windfall 35 million we gave you the waivers on. But otherwise you can do whatever the hell you want with the masks, CEO Mike. Taking care of your distributors at the expense of the health and safety of Americans was never the problem. It was the embarrassment you caused the White House that was the problem.

One last vignette on the 3M saga. On the Q2 earnings call, CEO Mike starts off by, again, *thanking* the Trump administration for all of their help and coordination in making more N95 masks right here in the good old US of A. Want to know how many analyst questions he got about N95 masks in the Q&A after his prepared remarks? Zero. Why? **Because N95 mask production is 2% of 3M's global revenue.** Because now that there were no more angry Trump tweets and no more public relations concerns, they could go back to asking questions that *really* matter.

So just going back to capital allocation. What do you need to see in terms of things getting back to normal? To go back to share buybacks, to go back to looking at M&A, what does it take?

- **Andrew Obin** -- Bank of America Merrill Lynch -- Analyst

OK. All right. And then maybe one follow-on question. Just going back to the comments around capital deployment and when you could potentially get more aggressive with a buyback or M&A.

- **Joe Ritchie** -- Goldman Sachs -- Analyst

Yep. **When share buybacks?** Can't make it up.

Look, I can go on forever about this stuff. I mean, I haven't even talked about the contracts with Owens & Minor, a public company with a sub-\$1 billion market cap.



Here's Trump a week after the Honeywell photo-op in Phoenix, taking the stage at the Owens & Minor production facility in Allentown, PA, flashing his America First salute. He's about to introduce Jared and ... wait for it ... Jared's college bud and the CEO of the US International Development Finance Corporation, Adam Bohler. Yes, [the team that brought you the Kodak fiasco](#) is *exactly* the same team that brought you Owens & Minor, through *exactly* the same funding mechanism. Adam is, of course, described as "fantastic". From there we have [the usual stump speech](#) about America First and Sleepy Joe Biden. But don't call it a campaign appearance.

It's always the same thing, in big ways and in small ways - play ball with the White House and you can feed at the trough. Nothing matters. Everything is for sale.

Meanwhile, another 50,000 Americans will get sick with Covid-19 today.

Meanwhile, another 1,000 Americans will die.



Hey, it is what it is.

Nope. It isn't. It really, really isn't.

From a policy perspective, I've already told you what I think we should do. This part is easy.

Today, crack open the supply chain and distribution networks of 3M and Honeywell, the two giant corporations that dominate N95 mask production in the United States, but who do so as an afterthought, as a pimple on the butt of their strategic plans.

Today, require NIOSH (the regulatory body that approves a mask as N95-compliant) to expedite its ridiculous 6+ month approval process for new entrants, including KN95 mask producers.

Today, take a fraction of the money we're giving to politically-connected companies like Kodak or Owens & Minor, and make that funding available to American entrepreneurs - *the most powerful force for positive change in the world today* - to get involved directly in the manufacturing and (even more importantly) the distribution of PPE to ALL Americans.

The policy perspective is easy. It's the personal perspective that's hard.

How do we live with the NOW? How do we make our way in a fallen world, where this sort of banal evil flourishes with such abandon and success?

It's inhuman not to feel anger. So yeah ...

Burn. It. The. Fuck. Down.

But also ...

If you are a healthcare worker or first responder in urgent need of PPE (or you know someone who is), go to <https://www.epsilontheory.com/ppe-requests/> and let us know. No promises. But we will do everything we can to help.

Hope has two beautiful daughters - Anger and Courage.

Anger at the way things are, and Courage to see that they do not remain as they are.

- St. Augustine (supposedly)

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